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MAR 20 1974

Mr. Carroll Smith
Assistant Administrator for Administration
National Credit Union Administration
2025 M Street, NW.
Washington, D.C. 20036

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BEST DOCUMENT AVAILABLE

Dear Mr. Smith.

In the course of our recently completed audit of the Administration, we saw at first hand the progress that has been made in improving your financial operations and the constructive follow-through on our suggestions of last year. The creation of an internal audit capability should benefit the Administration and will be helpful to us in next year's work We will be in touch with you in the near future to work out plans for the 1974 audit in which we hope to place as much reliance as possible on the work of the internal auditors.

We thought it would be useful to summarize for you observations developed during the fiscal year 1973 examination and not included in our report to Congress. These matters have been discussed with Office of Financial Management personnel and their comments have been considered in our presentation.

At June 30, 1973, the issues presented below involved amounts that did not have a material effect upon the fairness of your financial presentation. It is conceivable that with an expanding program these issues could take on greater significance Therefore, it would be advantageous to develop the appropriate accounting procedures at this time. We are offering the following suggestions as a basis for moving towards resolution of these matters in advance of our next audit.

Valuation of receivables

Under repurchase agreements the Administration has acquired assets from liquidating credit unions and included them on its financial statements at full cost of $25,090. These assets consisted primarily of loans receivable.

We discussed the collectibility of the loans with the Director of Financial Management and were informed that it is doubtful the full amount

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will be recovered since most loans acquired under repurchase agreements have a high uncollectibility rate.

We suggest that the Administration establish a valuation reserve to reduce these assets to their estimated realizable value. This would provide more reliable financial data and would enable the Administration to provide a better measurement of net income since periodic estimates of uncollectible amounts could be made.

Loans to insured credit unions

During fiscal year 1973, the Administration made several loans to insured credit unions which enabled them to liquidate voluntarily We were advised by the Director of Financial Management that these loans, which at June 30, 1973, amounted to $84,000, were generally not expected to be repaid to the Administration We were also informed that if the loans had not been made, a greater loss to the share insurance fund might have resulted because the insured credit unions would have had to liquidate on an involuntary basis and the Administration would have assumed the role of the liquidating agent

We believe amounts paid to ensure voluntary liquidation are more in the nature of insurance payments rather than loans. Therefore, we suggest that the Administration consider amending its accounting treatment of these loans so that the asset account contains only those amounts considered to be collectible by management The amounts which are not expected to be repaid to the Administration should be recorded as an expense of the share insurance fund.

Accounting procedures for investments

During the examination, we noted that Administration accounting procedures did not provide for properly recognizing in the accounts gains or losses on the sale or exchange of investments. For example, a loss realized on the sale of a U.S Treasury bill was recorded as a reduction of interest income on investments.

We suggest that the Administration amend its accounting procedures to properly record investment transactions. Although the dollar amounts currently are not significant, we believe that as the share insurance fund and its investment portfolio continues to grow, the number of sales or exchanges of investments will increase in order to provide cash for operations or to obtain better yield rates on investments. Therefore, it is important that these transactions be recognized properly to provide management with the data needed to manage its investment portfolio and to disclose the financial results of all investment activity.

There are several recognized accounting procedures which can be used in recording investment transactions and we would be happy to meet with you to discuss the procedure which might best meet your needs.

Financial statements

The Comptroller General's principles and standards of accounting for Federal agencies require that basic financial reports of an agency include a statement of changes in financial position. In order to be of assistance, and with your agreement, we prepared these statements for the Administration in our prior audit and for the current examination. We also revised your other financial statements so that they would present all significant financial information but with less detailed information than needed for your internal management purposes We are confident you will agree that it would be most helpful if for the coming year we could rely on you to prepare these statements. This would facilitate our audit and should reduce our audit time requirements We will contact you before our next audit to discuss this matter further.

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Your comments on the above matters and advice as to any action taken or planned would be appreciated We would be happy to provide further information regarding these matters if it will be helpful.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager